


**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
HEALTH BENEFITS COMMITTEE
MEETING MINUTES**

August 15, 2006



The Health Benefits Committee met on Tuesday, August 15, 2006, in the Lincoln Plaza North Building, 400 Q Street, Sacramento, California.

The meeting was called to order at 9:40 a.m. with the following members present:

George Diehr, Chair
Priya Mathur, Vice Chair
James Zerio representing Philip Angelides
Marjorie Berte
Rob Feckner
Debbie Endsley representing David Gilb
Tony Oliveira
Charles Valdes
Joy Higa representing Steve Westly

Other Board members present:

Robert Carlson
Kurato Shimada
Maeley Tom

AGENDA ITEM 2 – APPROVAL OF THE JUNE 20, 2006, HEALTH BENEFITS COMMITTEE MEETING MINUTES

The June 20, 2006, Health Benefits Committee meeting minutes were approved as presented.

AGENDA ITEM 3 – BLUE SHIELD OF CALIFORNIA REGIONAL COUNCIL OVERVIEW

As an information item, Terri Westbrook, Assistant Executive Officer, Health Benefits Branch, summarized Blue Shield of California's commitment to work with CalPERS staff, employers, labor and retiree organizations, healthcare providers and members on establishing Regional Councils to address the issue of the high cost of providing healthcare in Blue Shield's Direct Contract and Exclusive Provider Organization counties. Kathlyn Mead, Blue Shield of California, gave a PowerPoint presentation to highlight how the Regional Councils will work and explain the project scope and timeline. The objective of the Regional Councils is to ensure that key stakeholders are aware of the impact that certain provider issues, rates and practice patterns of health

care delivery are making on the cost of health care in these counties and work with providers to identify opportunities for cost savings.

AGENDA ITEM 4 – APPROVAL OF CORRECTED 2007 CCPOA BENEFIT TRUST SUPPLEMENT TO MEDICARE PLAN PRESCRIPTION DRUG BENEFIT

Richard Krolak, Chief, Office of Health Plan Administration, noted a discrepancy that was discovered after the final rate approval in June 2006, in the California Correctional Peace Officers' Association (CCPOA) Benefit Trust Supplement to Medicare Plan prescription drug benefit. In following up with Blue Shield (CCPOA's HMO provider), CalPERS staff confirmed that, although CCPOA's June 2006 rate letter states that both its Basic and Medicare plans have a \$50 deductible for brand name prescription drugs, this deductible only applies to the Basic plan; the Medicare plan does not have a prescription drug deductible.

On **MOTION** by Rob Feckner, **SECONDED** and **CARRIED**, the Committee recommended the Board approve staff's recommendation to approve the corrected 2007 CCPOA Benefit Trust Supplement to Medicare Plan prescription drug benefit.

AGENDA ITEM 5 – 2006 FIRST QUARTER SELF-FUNDED PLANS FINANCIAL REPORT

As an information item, Richard Krolak, Chief, Office of Health Plan Administration, provided a report on the status of the financial reserves for the self-funded health plans. The report covered the first quarter of 2006 (ending March 31, 2006). Mr. Krolak stated that the overall level of the assets in the self-funded health plans remain strong. The first quarter asset levels met expectations. Of note:

- The most notable development is the continued higher than expected rolling 12-month medical trend of the PERS Choice Basic plan. The PERS Choice Basic plan trend continues to escalate, primarily due to the increase in large (over \$50,000) claims. Staff continues to work with our third party administrator to monitor these claims to look for opportunities to reduce costs through the use of intensive case management.
- The PERS Choice Supplement plan assets above actuarial reserves continue to decrease. The surplus in the PERS Choice Supplement plan has decreased from \$17 million in the first quarter of 2005 to \$3.8 million in the current quarter. Staff is closely watching this trend.
- The PERSCare Basic plan enrollment continues to decline (decreased by 1383 total covered lives from December 2005 to March 2006), which places this plan at a greater risk of volatility. Because of the small number of total covered lives in this plan (23,485 as of March 2006), relatively few adverse situations can have an inordinate effect on the plan's financials. Even though the PERSCare Basic plan's financial situation remains strong at this time, staff, working with input from actuarial consultants, continues to monitor this situation.

AGENDA ITEM 6 – SELF-FUNDED HEALTH PLANS THIRD PARTY MEDICAL ADMINISTRATOR REQUEST FOR PROPOSAL: APPROVAL OF BUSINESS MODEL AND PROCESS

Richard Krolak, Chief, Office of Health Plan Administration, introduced David Beech, Senior Healthcare Consultant, Watson Wyatt Worldwide. Mr. Beech, after introducing

his team, Katie Furco, Nicole Bianco, and Neil Toyota, presented a PowerPoint presentation highlighting the proposed business model and process for the Self-Funded Health Plans' Third Party Medical Administrator Request for Proposal (RFP). The Medical Administrator RFP is scheduled for release September 14, 2006.

On **MOTION** by Priya Mathur, **SECONDED** and **CARRIED**, the Committee recommended the Board approve staff's recommendations to approve: 1) the Schedule of Events for issuance of a Medical Administrator RFP for the self-funded health plans; 2) the RFP business model and fiduciary responsibility; and 3) the Board's participation in the evaluation process and interview evaluation method, with the Board's scoring of the top bidder at 800; the second, 700; the third, 600, etc. This scoring method is an exception to the current Board policy, which uses the apportionment method.

The following people spoke on this item:

Neal Johnson, SEIU, State Council and Local 1000, and the California Healthcare Coalition

Barbara LaPlante, President, California State Employees' Association, Retired Division

Mike Richard, California State Employees' Association, Retired Division

J.J. Jelincic, President, California State Employees' Association

Ray Snodgrass, California Department of Forestry, Firefighters

Milt Dobkin, California Faculty Association, California State University Emeritus and Retired Faculty Association

AGENDA ITEM 7 – SECOND READING: LONG-TERM CARE PROGRAM 2005 AND EARLIER RATES – PROPOSED MITIGATION STRATEGIES

Richard Krolak, Chief, Office of Health Plan Administration, provided an update on the discussions with the Long-Term Care Advisory Committee regarding appropriate mitigation strategies for the Long-Term Care Program 2005 and earlier rates.

On substitute **MOTION** by Priya Mathur, **SECONDED**, the Committee recommended the Board approve a staff recommendation on immediate mitigation of rates by implementing the first step of a two-step increase for 2007-2008; the first year increase being an aggregate 14.7 percent and the second year increase to be set after a parallel valuation is completed by an independent actuary.

Mr. Carlson requested a roll call vote.

Jim Zerio for Philip Angelides	NO
Debbie Endsley for David Gilb	YES
George Diehr, Chair	YES
Rob Feckner	NO
Marjorie Berte	YES
Priya Mathur, Vice Chair	YES
Tony Oliveira	NO
Charles Valdes	NO
Joy Higa for Steve Westly	NO

The final vote was 4 YES, 5 NO. The motion **FAILED**.

On **MOTION** by Marjorie Berte, **SECONDED**, the Committee recommended the Board direct staff to hire an independent actuary that is qualified and experienced in the field of long-term care insurance programs to conduct a parallel review of the 2006 valuation and proposed mitigation plans for prior years' enrollees in the program. The scope of this project shall include a thorough review of valuation assumptions made by the current actuarial firm conducting the valuation, including but not limited to morbidity assumptions and estimation of deficit size. The review should also include an independent analysis and report on proposed rate adjustments and rate plan structure necessary to achieve a successful mitigation of projected deficits. The selection of this independent actuarial firm and actuaries to conduct the review shall be supervised by the CalPERS Chief Audit Officer, who will oversee the completion of the project.

This additional valuation review is unusual, occasioned by the projected deficits in the Long-Term Care Program, and is not to be considered as a precedent to the normal cycle of program valuation activities.

Given the critical need for action to mitigate the deficits of the program, it is requested that this work go forward with the utmost urgency, and that the parallel review report not be used to delay the development and presentation of a mitigation plan to the Health Benefits Committee and the Board. Staff is directed to present a first reading of the mitigation plan to the Health Benefits Committee no later than the October 2006 meeting. The independent parallel valuation shall be utilized to validate or make adjustments to the plan. A final mitigation plan should be brought to the Health Benefits Committee and the Board at the November 2006 meetings.

Mr. Carlson requested a roll call vote.

Jim Zerio for Philip Angelides	YES
Debbie Endsley for David Gilb	YES
George Diehr, Chair	YES
Rob Feckner	YES
Marjorie Berte	YES
Priya Mathur, Vice Chair	YES
Tony Oliveira	YES
Charles Valdes	YES
Joy Higa for Steve Westly	YES

The final vote was 9 YES, 0 NO. The motion **PASSED**.

The following people spoke on this item:

Ann McWherter, Chair, Long-Term Care Advisory Committee
Mike Richard, California State Employees' Association, Retired Division
Ray Snodgrass, California Department of Forestry, Firefighters
Milt Dobkin, California Faculty Association, California State University Emeritus and Retired Faculty Association
Wilma Krebs, California State University, Retired

AGENDA ITEM 8 – ASSISTANT EXECUTIVE OFFICER REPORT

Terri Westbrook, Assistant Executive Officer, Health Benefits Branch, presented an update on the Health Program open enrollment materials and upcoming health fairs.

The new consolidated open enrollment materials have been completed and were mailed to all of our enrollees. Ms. Westbrook thanked the Office of Public Affairs and all the divisions within the Health Branch who participated in this process. To date, through our online web-enabled registration system, we have scheduled approximately 140 health fairs.

AGENDA ITEM 9 – PROPOSED AGENDA FOR THE SEPTEMBER 12, 2006, HEALTH BENEFITS COMMITTEE MEETING

The proposed September 12, 2006, Health Benefits Committee Agenda was approved as presented.

AGENDA ITEM 10 – PUBLIC COMMENT

There was no public comment.

The meeting was adjourned at 11:55 a.m.

The next meeting of the Committee is scheduled for September 12, 2006, in Sacramento, California, following adjournment of the Benefits and Program Administration Committee.

FRED BUENROSTRO
Chief Executive Officer